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C O N F I D E N T I A L SECTION 01 OF 02 MANILA 004848

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TAGS: [PREL](#) [PBTS](#) [BTIO](#) [EPET](#) [ECON](#) [CH](#) [VM](#) [RP](#)
SUBJECT: JOINT SEISMIC SURVEY IN SOUTH CHINA SEA MAKES
PROGRESS

REF: 04 MANILA 05826

Classified By: Pol/C Scott Bellard, reasons 1.4 (b) and (d)

¶1. (C) Summary: The first phase of a joint seismic survey for hydrocarbon deposits undertaken by the national oil companies of the Philippines, China, and Vietnam in an 143,000 square kilometer zone of the South China Sea is near completion. After its partners conducted a "reconnaissance" survey of the entire zone, the Philippine National Oil Corporation is now interpreting the initial survey data, which it expects to finish by the end of the year. Promising areas identified in the first phase will be surveyed again more closely in the second phase. If viable deposits are ultimately found, a new agreement would be needed to cover any joint development, which Philippine sources predicted would be reserved for the three national oil companies. The joint seismic survey offers a good model for potential subsequent cooperation on exploration and exploitation, and fits neatly with Philippine goals of increased interaction between ASEAN and China and the promotion of confidence building measures. The true test of the cooperative spirit, however, will come when the parties may contemplate extraction. End Summary.

¶2. (C) On November 28, Raymundo Savella, Exploration Manager of the Philippine National Oil Company (PNOC), described to poloff recent progress on the joint seismic survey for hydrocarbon deposits in the South China Sea (the "Joint Marine Seismic Undertaking") by Petro Vietnam, the China National Offshore Oil Corporation, and PNOC. (Reftel described the genesis of this agreement during a September 2004 visit to Beijing by President Gloria Macapagal Arroyo. Initially between only China and the Philippines, Vietnam also signed on to the agreement in March 2005.) The "Tripartite Agreement," as it is also called, covered surveying activities only in an area north of the Philippine island of Palawan, encompassing much of the disputed areas around the Spratly Islands. It outlined three phases: an initial "reconnaissance" survey of the entire 143,000 square mile zone; a subsequent more detailed survey of the most promising areas; and, eventually, identification of possible drilling targets. Savella also explained how the three companies are sharing the workload. China provided the survey ship. Vietnam processed the raw data. The Philippines interpreted the data. Savella predicted that the PNOC will complete its interpretation of the first phase data by the end of the year.

¶3. (C) Any future joint extraction of oil would necessitate a new agreement among the three parties, Savella confirmed, while warning that negotiating such an agreement, "when you can actually smell the oil" could draw political opposition within the Philippines. He acknowledged a concern here that China stood to benefit disproportionately from the

project because of its greater capacity to extract oil and because of the relative inexperience of the Philippine oil industry. He commented that the issue of national sovereignty would likely come to the fore when contemplating actual exploitation.

¶4. (C) In a separate conversation, former PNOG President Eduardo Manalac (who presided over the inception of the joint survey) predicted that any future exploitation contracts would not be open to foreign corporations and that the three countries will likely "try to go on their own." He opined that China might, however, even agree to fund Philippine wells with concessionary loans.

¶5. (U) During her October visit to China for the ASEAN-China Commemorative Summit, President Arroyo publicly underscored the importance of the joint survey. She noted that "it is really considered a diplomatic feat we were able to get the three countries together to work on the joint research." She separately stated that "now that joint seismic research has been done, and the findings are being collated, if warranted we should consider having joint exploration in the South China Sea."

¶6. (C) Comment: Much work remains to be done and many potential pitfalls loom as the three nations look for new deposits in this area of overlapping and often-contested claims. The joint seismic survey nonetheless offers a good model for potential subsequent cooperation on exploration and exploitation, and fits neatly with Philippine goals of increased interaction between ASEAN and China, the promotion of confidence building measures, and the elimination of territorial claims as a source of regional tension. The true test of the cooperative spirit, however, will come when the

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parties may contemplate extraction.

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